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MEMORANDUM



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FROM: Ernest G. Johnson
for Director
Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: October 26, 2001

RE: STAFF REPORT FOR WILLOW LAKES PROPERTY OWNERS ASSOCIATION
APPLICATION TO AMEND DECISION NO. 63588 (DOCKET NO. W-02173A-00-
0974)

Attached is the Staff Report for Willow Lakes Property Owners Association application for an amendment to Decision No. 63588 to revise the rates given in the Order. Staff recommends approval of its rates. Staff further recommends that a hearing should not be held in this matter.

EGJ:RDN:rdp

Originator: Roger Nash

Attachment: Original and ten copies

Arizona Corporation Commission

DOCKETED

OCT 30 2001

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Service List for: Willow Lakes Property Owners Association
Docket No. W-02173A-01-0974

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

WILLOW LAKES PROPERTY OWNERS ASSOCIATION


DOCKET NO. W-02173A-00-0974

**APPLICATION
TO
AMMEND DECISION NO. 63588**

OCTOBER 2000

STAFF ACKNOWLEDGMENT

Willow Lakes Property Owners Association's application to amend Decision No. 63588, dated April 24, 2001, Docket Number W-02173A-00-0974, was the responsibility of the Staff members listed below. Roger Nash was responsible for the review and analysis of the Company's request to amend Decision No. 63588. Richard David Martinez was responsible for reviewing the Arizona Corporation Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.


Roger Nash
Auditor III


Richard David Martinez
Consumer Service Specialist

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Fact sheet

Company:

CC&N: Decision No. 48424, dated October 7, 1977.
Current Rates: Decision No. 63588, dated April 24, 2001.
Type of Ownership: Non – Profit Association

Location: Cochise County, Arizona approximately 10 miles north of Benson. Not located in an Active Management Area (AMA)

Rates

Permanent rate application filed: November 28, 2000.

Current Test Year Ended: December 31, 1999
Updated Test Year Ended: December 31, 2000
Prior Test Year Ended: December 31, 1980

	Present Rates Per Decision No. <u>63588</u>	Proposed Rates
Monthly Minimum Charge (Based on a 5/8 X 3/4 – inch meter)	\$25.00	\$25.00
Gallons in Minimum	0	0
Excess of minimum, charge per 1,000 gallons:		
From 0 to 8,000 gallons:	\$5.20	\$2.25
In excess of 8,000 gallons	\$5.20	\$3.20
Typical residential bill (based on median usage of 5,750 gallons)	\$54.90	\$37.94

Customers

Number of customers in the prior Test Year (12/31/80): 56

Number of customers in the current Test Year (12/31/99): 56

Number of customers in the updated Test Year (12/31/00): 62

Updated Test Year customers by meter size:

5/8 X 3/4 – inch	62
3/4 – inch	0
1 – inch	0
1 1/2 – inch	0
2 – inch	0
4 – inch	0
6 – inch	0
8 – inch	0

Seasonal customers: N/A

Introduction

On November 28, 2000, Willow Lakes Property Owners Association, Inc. ("Company") filed a rate increase application resulting in Decision No. 63588, dated April 24, 2001. Decision No. 63588 adopted Staff's recommended rates and retroactive approval of a Rural Development loan to replace inoperative meters, aging mains and the construction of a second well.

Staff's recommended rates were consistent with the Company's estimated average usage of approximately 3,500 gallons. The Company's average water usage was estimated due to the lack of accurate meter readings. The Company replaced the inoperative meters with the proceeds of the Rural Development loan and placed them in service in April 2001.

On May 2001, the Commission approved tariff rates were implemented and the Company billed its customers based on accurate meter readings. However, actual meter readings from May through August 2001, resulted in a higher average usage than estimated. Consequently, the revenues derived from metered rates were also higher than expected.

On August 30, 2001, at the request of the Company and the ratepayers, a public comment meeting was conducted. A member of the Consumer Services section as well as a member from Accounting and Rates represented Staff. The customers commented that the community is composed of low-income families and due to the increased water rates, most families are experiencing financial hardship. The ratepayers also expressed that the increased rates are impacting their ability to pay for essential expenses such as food and housing.

On September 21, 2001, the Company requested to amend the tariff approved in Decision No. 63588 consistent with readings obtained from operative meters. Staff agreed with the Company's request to review its recommended rates.

The data provided by the accurate bill counts and the most recent operating expenses found in the Utilities Division Annual Report for the calendar year ended December 31, 2000, provided the basis for Staff's recommendations found in this Report.

Summary of Filing

Based on current rates approved in Decision No. 63588, the Company would realize an operating income of \$32,294 on an Original Cost Rate Base ("OCRB") of \$128,237 for a 25.18 percent rate of return (Schedule 1).

The rates approved in Decision No. 63588 were based on the Company's estimated usage of 3,596 gallons per customer. However, four months of actual bill counts taken from the newly installed meters, resulted in a median usage of 5,750 gallons. Accordingly, Staff's recommended revenue level of \$35,179 is consistent with the accurate meter readings obtained subsequent to the 1999 Test Year.

Staff's recommended rates result in operating income of \$7,682, for a rate of return of 5.76 percent on an OCRB of \$133,305. The typical residential bill, with a median usage of 5,750 gallons, would decrease from \$54.90 to \$37.94, for a decrease of \$16.96 or 30.9 percent.

Company Background

Willow Lakes Property Owners Association is a not-for-profit corporation that is engaged in the business of providing public utility water service. The Company received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 48424, on October 7, 1977, and received its current rates in Decision 63588, dated April 24, 2001.

Compliance

Arizona Department of Environmental Quality ("ADEQ") certified the system is delivering water not exceeding any maximum contaminant level ("MCL") and meets the quality standards of the Safe Drinking Water Act.

The Company is current in the remittance of sales tax and property taxes.

Rate Base

Staff has made adjustments to the Company's proposed Rate Base that resulted in an increase of \$5,103 (Schedule 2, page 1) from \$128,202 to \$133,305.

Staff's Adjustment A decreased Plant in Service and Contribution in Aid of Construction by \$34,650 to reflect the actual cost of plant improvements of \$345,350 versus \$380,000.

Staff's Adjustment B increased the Accumulated Depreciation account by \$2,006 as shown in Schedule 2 page 3, from \$57,944 to \$59,950. This adjustment reflects one more year of depreciation expense due to the updated Test Year and a plant in service reduction of \$34,650.

Adjustment C (Schedule 2, page 1) increased amortization of CIAC by \$6,134 to reflect the updated Test Year.

Adjustment D (Schedule 2, page 1) to Operation and Maintenance expense was based on Staff's adjustment to Operating Expenses.

Test Year Revenue and Expenses

Staff's adjustments to revenues and expenses resulted in a decrease in the Company's operating income of \$24,612, from \$32,294 to \$7,682 as shown on Schedule 3, page 1, of this report.

Staff decreased Water Sales by \$16,316 (Adjustment A), from \$51,495 to \$35,179, to reflect the difference between revenues derived in Decision No. 63588 and Staff's revised recommended rates derived from the Company's submitted four months of actual bill counts.

Adjustment B reflects the difference between operating expenses listed in the Company's 2000 Utilities Division Annual Report (updated Test Year ended December 31, 2000) and the operating expenses approved in Decision No. 63588.

Adjustment C increased Outside Services on a pro forma basis by \$4,800 for the certified water operator and \$2,400 for the bookkeeper/billing clerk service. Adjustment C also reduced Outside services by \$262 to reflect the difference between operating expenses listed in the Company's 2000 Utilities Division Annual Report (updated Test Year ended December 31, 2000) and the operating expenses approved in Decision No. 63588.

Adjustment D reduced Depreciation Expense by \$679 consistent with Staff's adjustment to Plant in Service.

Cash Flow and Rate Design

Staff's recommended rates and charges presented on Schedule 4 provide sufficient revenues to cover operations, maintenance, USDA-Rural Development loan interest and principal payments, and normal contingencies. Staff's proposed rates would generate a positive cash flow of approximately \$11,946 which would enable the Company to meet its financial obligations including debt service coverage.

Staff recommends a two-tiered rate structure, which would promote conservation and meet the revenue requirements sufficient to cover expenses and debt service.

Staff Recommendations

Staff recommends approval of its revised rates and charges presented in Schedule 4 of this Report.

Staff further recommends the approved rates become effective for the December 1, 2001 billing.

Staff further recommends approval of its rates and charges without a hearing.

Staff further recommends that the Company be ordered to notify its customers of the rates and charges approved by the Commission and the effective date by means of an insert in its next regular monthly billing, and file with the Commission within 60 days from the effective date of the Decision a copy of the notice it sends to its customers of the new rates and charges.

Staff further recommends the Company be ordered to file a tariff consistent with the rates and charges approved in the Commission Decision within 15 days from the effective date of the Commission Decision.

Staff further recommends the Company file a rate review within one year of the effective date of this order.

Staff further recommends that, in addition to the collection of the Company's regular rates and charges, Willow Lakes Property Owners Association shall collect from its customers their proportionate share of any Privilege, Sales or Use Tax as provided for in A.A.C. R14-2-409.D.

SUMMARY OF FILING

	Present Rates	Staff as Recommended
Revenues:		
Water Sales	\$51,495	\$35,179
Other Operating Revenue	0	0
Total Operating Revenue	\$51,495	\$35,179
Operating Expenses:		
Operation and Maintenance	\$13,043	\$20,479
Depreciation	4,818	4,139
Taxes Other than Income	1,340	2,879
Income Tax	0	0
Total Operating Expense	\$19,201	\$27,497
Operating Income/(Loss)	\$32,294	\$7,682
Rate Base O.C.L.D.	\$128,237	\$133,305
Rate of Return - O.C.L.D.	25.18%	5.76%
Times Interest Earned Ratio	7.46	1.78
Debt Service Coverage Ratio	8.56	2.03
OPERATING MARGIN	62.71%	21.84%

NOTE: 1. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	----- Original Cost -----		
	Decision No.		
	63588	Adjustment	Staff
Plant in Service	\$464,764	(\$34,650)	A \$430,114
Less:			
Accum. Depreciation	57,944	2,006	B 59,950
Net Plant	\$406,820	(\$36,656)	\$370,164
Less:			
Plant Advances	\$0	\$0	\$0
Customer Meter Deposits	0	0	0
Total Advances	\$0	\$0	\$0
Contributions Gross	\$280,000	(\$34,650)	A \$245,350
Less:			
Amortization of CIAC	0	6,134	C 6,134
Net CIAC	\$280,000	(\$40,784)	\$239,216
Total Deductions	\$280,000	(\$40,784)	\$239,216
Plus:			
1/24 Power	\$101	\$0	\$101
1/8 Operation & Maint.	1,280	975	D 2,256
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$1,382	\$975	\$2,357
Rate Base	\$128,202	\$5,103	\$133,305

Explanation of Adjustment:

- A - See Schedule 2 page 2 of 3
- B - See Schedule 2 page 3 of 3
- C - To amortize CIAC to reflect updated Test Year
- D - Based on Staff's adjustment to Operating Expense

Willow Lakes Property Owners Association

Docket No. W-02173A-00-0974

Test Year Ended December 31, 2000

Schedule 2

Page 2 of 3

PLANT ADJUSTMENT

	Decision No. 63588	Adjustment	Staff Adjusted
301 Intangibles	\$2,500	\$0	\$2,500
303 Land & Land Rights	2,020	0	2,020
304 Structures & Improvements	2,589	0	2,589
307 Wells & Springs	5,000	14,125	19,125
311 Pumping Equipment	19,113	16,000	35,113
320 Water Treatment Equipment	480	0	480
330 Distribution Reservoirs	9,500	23,600	33,100
331 Trans & Dist Mains	21,020	259,686	280,706
333 Services	200	0	200
334 Meters	2,119	18,939	21,058
335 Hydrants	0	0	0
340 Office Furniture & Fixtures	0	0	0
341 Transportation Equipment	0	0	0
343 Tools & Work Equipment	223	0	223
345 Power Operated Equipment	0	13,000	13,000
346 Communications Equipment	0	0	0
348 Other Tangible Plant	20,000	0	20,000
105 C.W.I.P.	380,000	(380,000)	0
TOTALS	\$464,764	(\$34,650) A	\$430,114

Explanation of Adjustment:

- A - To reduce plant in service by \$34,650. The Company did not use the entire USDA grant awarded of \$280,000 to complete plant improvements.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$57,944
Accumulated Depreciation - Per Staff	59,950
Total Adjustment	<u>\$2,006</u>

Explanation of Adjustment:

- B - This is to reflect one year of accumulated depreciation from the Test Year used in Decision 63588 (ended December 31, 1999).

Decision No. 63588	\$57,944
Accumulated Depreciation per Staff Year 2000	<u>\$2,006</u>
	<u><u>\$59,950</u></u>

STATEMENT OF OPERATING INCOME

	Per Decision No. 63588	Staff Adjustments		Staff Recommended
Revenues:				
Water Sales	\$51,495	(\$16,316)	A	\$35,179
Other Operating Revenue	0	0		0
Total Operating Revenue	\$51,495	(\$16,316)		\$35,179
** Operating Expenses:				
Purchased Pumping Power	\$2,558	(\$124)	B	\$2,434
Purchased Water	0	0		0
Salaries and Wages	0	0		0
Repair and Maintenance	2,122	1,215	B	3,337
Water Testing	1,178	0		1,178
Chemicals	200	(20)	B	180
Transportation Expense	0	0		0
Office Supplies & Expense	1,056	(362)	B	694
Insurance	223	451		674
Outside Services & Rate Case Expense	3,260	6,938	B&C	10,198
Rents	0	0		0
Depreciation	4,818	(679)	D	4,139
Property Tax	706	1,034	B	1,740
Taxes Other Than Income	634	505	B	1,139
Income Taxes	0	0		0
Miscellaneous Expense	2,446	(662)	B	1,784
Total Operating Expenses	\$19,201	\$8,296		\$27,497

OPERATING INCOME/(LOSS)	\$32,294	(\$24,612)		\$7,682
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Other Income/(Expense):				
Interest Income	\$325	(\$200)	B	\$125
Other Income	0	0		0
Interest Expense	4,374	(0)		4,374
Reserve/Replacement Fund Deposit	0	535	B	535
Other Expense	0	0		0

Total Other Income/(Expense)	(\$4,049)	(\$735)		(\$4,784)
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NET INCOME/(LOSS)	\$28,245	(\$25,347)		\$2,898
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** "Staff Recommended" Operating Expenses consist of Company filed 2000 ACC Utilities Division Annual Report along with Staff's Proforma amounts.

Willow Lakes Property Owners Association

Docket No. W-02173A-00-0974

Test Year Ended December 31, 2000

Schedule 3

Page 2 of 2

STAFF ADJUSTMENTS

A -	WATER SALES - Per Company	\$51,495	
	Per Staff	35,179	\$16,316

To adjust to Staff's recommended revenues.

B -	OPERATING EXPENSES - Per Decision No. 63588	\$19,201	
	Per Staff	20,297	\$1,096

To adjust to the operating expenses reported in the Utilities Division Annual Report
(updated test year)

C -	OUTSIDE SERVICES - PER Decision No. 63588	\$0	
	Per Staff	7,200	\$7,200

To increase Outside Services by \$7,200 on a pro forma basis.

D -	DEPRECIATION - Per Decision No. 63588	\$4,818	
	Per Staff	4,139	(\$679)

*Explanation of Adjustment:***Pro Forma Annual Depreciation Expense:**

Plant in Service	\$430,114
Less: Non Depreciable Plant	4,520
Fully Depreciated Plant	14,700
Depreciable Plant	\$410,894
Times: Staff Proposed Depreciation Rate	2.50%
Credit to Accumulated Depreciation	\$10,272
Less: Amortization of CIAC @ 2.50%	6,134 *
Pro Forma Annual Depreciation Expense	\$4,139

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$245,350
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	\$245,350
Times: Staff Proposed Amortization Rate	2.50%
Amortization of CIAC	\$6,134

RATE DESIGN

	Decision No.	Staff
	63588	Proposed
<u>Monthly Usage Charge</u>		
5/8" x 3/4" Meter	\$25.00	\$25.00
3/4" Meter	37.50	30.00
1" Meter	62.50	50.00
1½" Meter	125.00	100.00
2" Meter	200.00	160.00
3" Meter	375.00	300.00
4" Meter	625.00	500.00
6" Meter	1,250.00	1,000.00
Gallons Included in Minimum	0	0
Excess of Minimum per 1,000 Gallons: From 1 to 8,000	5.20	2.25
In excess of 8,000 Gallons	5.20	3.20
<u>Service Line and Meter Installation Charges</u>		
5/8" x 3/4" Meter	\$100.00	\$100.00
3/4" Meter	120.00	120.00
1" Meter	160.00	160.00
1½" Meter	300.00	300.00
2" Meter	400.00	400.00
3" Meter	500.00	500.00
4" Meter	600.00	600.00
6" Meter	800.00	800.00
<u>Service Charges</u>		
Establishment	\$50.00	\$50.00
Establishment (After Hours)	75.00	75.00
Reconnection (Delinquent)	25.00	25.00
Meter Test (If Correct)	25.00	25.00
Deposit	*	*
Deposit Interest	*	*
Re-Establishment (Within 12 Months)	**	**
NSF Check	20.00	20.00
Deferred Payment	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	10.00
<u>Monthly Service Charge for Fire Sprinkler</u>		
4" or Smaller	\$0.00	***
6"	0.00	***
8"	0.00	***
10"	0.00	***
Larger than 10"	0.00	***

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 62

Decision No. 63588	Per Decision No.				
	Gallons	63588	Proposed Rates	Amount Decrease	Percent Decrease
Average Usage	8,503	\$69.21			
Median Usage	5,750	\$54.90			
Staff Proposed					
Average Usage	8,503	\$69.21	\$44.61	(\$24.60)	-35.5%
Median Usage	5,750	\$54.90	\$37.94	(\$16.96)	-30.9%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

Gallons Consumption	Decision No. 63588 Rates	Staff Recommender Rates	Staff % Decrease
0	\$25.00	\$25.00	0.0%
1,000	30.20	27.25	-9.8%
2,000	35.40	29.50	-16.7%
3,000	40.60	31.75	-21.8%
4,000	45.80	34.00	-25.8%
5,000	51.00	36.25	-28.9%
6,000	56.20	38.50	-31.5%
7,000	61.40	40.75	-33.6%
8,000	66.60	43.00	-35.4%
9,000	71.80	46.20	-35.7%
10,000	77.00	49.40	-35.8%
15,000	103.00	65.40	-36.5%
20,000	129.00	81.40	-36.9%
25,000	155.00	97.40	-37.2%
50,000	285.00	177.40	-37.8%
75,000	415.00	257.40	-38.0%
100,000	545.00	337.40	-38.1%
125,000	675.00	417.40	-38.2%
150,000	805.00	497.40	-38.2%
175,000	935.00	577.40	-38.2%
200,000	1,065.00	657.40	-38.3%